

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Integrate and
Refine Procurement Policies and Consider
Long-Term Procurement Plans

R.10-05-006

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
COMMENTS ON ADMINISTRATIVE LAW JUDGE'S INITIAL RULING
ON PROCUREMENT PLANNING STANDARDS**

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June 11, 2010

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On May 28, 2010, Administrative Law Judge (“ALJ”) Kolakowski issued her *Initial Ruling on Procurement Planning Standards and Setting Schedule for Comments and Workshops* (“Initial Ruling”). The Initial Ruling invited parties to submit additional or alternative proposals to the resource tables and planning standards for the System Resource Plans and the Bundled Procurement Plans (Attachments 1 – 4 to the Initial Ruling). PG&E submits the following general comments on the Initial Ruling, as well as specific comments on the attachments. Given the timing of these comments relative to the upcoming workshops, which will provide more specificity regarding the resource planning assumptions for Track I, PG&E will be able to provide more detailed comments on the staff’s proposal, as well as alternative recommendations on the resource planning assumptions, subsequent to the June 11 workshop in PG&E’s June 21st comments.

However, given the expedited schedule, PG&E is providing in these comments some specific proposals and suggestions for the Track I system resource plan, as well as the attachments to the Initial Ruling. In general, it is critical that all three tracks of the 2010 LTPP proceeding move forward in a timely fashion. In order to do so, the system resource plan and

bundled plan tracks of this proceeding should not be overly complicated with numerous analyses and studies. Instead, the Commission should focus on simplifying the studies and analyses to ensure that determinations can be made in this proceeding in a timely manner. With regard to the issues raised in the Initial Ruling, PG&E has the following comments:

- The Track I system resource plan studies should be conducted by a consultant retained by the Energy Division, with parties provided an opportunity to comment and provide input, rather than having three separate resource plans prepared by the Investor-Owned Utilities (“IOUs”);
- The system resource plan table (Attachment 1) and planning standards for the system resource plan (Attachment 2) require some clarification or revision; and,
- The bundled resource plan table (Attachment 3) and planning standards for the bundled resource plan (Attachment 4) require some clarification or revision.

I. THE SYSTEM STUDY IN TRACK I SHOULD BE PERFORMED BY A CONSULTANT RETAINED BY ENERGY DIVISION (SECTION 2.1).¹

In the Initial Ruling, the ALJ directed that the three IOUs conduct system studies for their service areas.² This direction needs to be re-examined. PG&E reiterates its comments submitted on June 4th on the *Long-Term Procurement Plan Order Instituting Rulemaking* (R.10-05-006) (“OIR”) that the Energy Division should retain a consultant to prepare the Track I system resource plan for the state of California. Having a consultant perform the system study for the state has a number of advantages.

First, it will be more efficient for all of the parties in this proceeding to be able to review a single study that covers the entire state, rather than having to review three separate studies that only cover the IOU service areas. A consultant will be able to prepare a single, statewide assessment that will make Track I of the 2010 LTPP proceeding more efficient.

¹ For clarity and simplicity, in its section headings, PG&E will reference the section numbers and attachments from the Initial Ruling so that the Commission and parties can easily reference the sections of the Initial Ruling that PG&E is addressing.

² Initial Ruling, at p. 3.

Second, a consultant can obtain and aggregate confidential data from all Commission-jurisdictional load-serving entities, including Electric Service Providers (“ESPs”) and Community Choice Aggregators (“CCA”), in a way that is accessible to all parties, and can use that information to prepare a detail system resource plan for the state of California. Because Commission-jurisdictional load-serving entities cannot give confidential information to each other, having a consultant obtain and use this data will be more efficient and ensure that the system studies are done with more accurate data.

Third, a consultant will be able to work directly with Energy Division to determine exactly what the Commission envisions including in a system resource plan, and will be able to provide independent review of the system resource plan for the Commission.

Fourth, a lot of work has been done and is currently being done as part of the 33% RPS implementation which the Energy Division and its consultants can leverage to estimate system resource needs. There is no point in duplicating efforts. A single system-wide analysis will be the most logical approach. This will ensure consistency of assumptions, and more importantly improve the chances of success in this part of the proceeding. The IOUs, along with other parties, can supplemental the Staff’s analysis with their own analyses.

Finally, as PG&E indicated in its comments on the OIR, because all load-serving entities will benefit from the system study done by a consultant, all of these entities should pay for the consultant’s costs. This creates a level-playing field for all LSEs, requiring that all of the LSEs that benefit from this proceeding also share in the costs.

II. STANDARDIZED LOAD AND RESOURCE TABLES FOR SYSTEM RESOURCE PLANS (SECTION 2.2 AND ATTACHMENT 1)

PG&E provides the following comments regarding the Standardized Load and Resource Tables (Attachment 1):

- NP26 is not the same as service area. As noted on page 3 of Attachment 1, the service area includes bundled and ESP/CCA load, whereas NP26 load includes municipal load as well. Therefore, NP26 should not be used to estimate the system need for PG&E's service area.
- All resources should be counted at their true reliability contribution, and their contribution reflected in the long-term Net Qualifying Capacity ("NQC") values used to estimate future need. NQC values that do not reflect the reliability contribution of resources will produce inaccurate need estimates.
- The long-term Renewable Portfolio Standard ("RPS") NQCs need to be estimated. The current one-year out NQCs counting approach used in the Resource Adequacy proceeding is not useful for long-term planning purposes because of the large changes anticipated to California's resource base. For example, if 10,000 MW of central station solar was added, the net need will shift to hours when there is little or no solar generation, away from the current assumed need period.
- The Demand Response ("DR") NQCs need to be estimated based on load impacts to reflect their contribution based on the system's future resource need under different resource portfolios or plans.

III. PLANNING STANDARDS FOR SYSTEM RESOURCES PLANS (SECTION 2.2 AND ATTACHMENT 2)

PG&E provides the following comments regarding the planning standards for the system resource plans (Attachment 2):

- The evaluation criteria shown in Table 1 should include reliability and operational feasibility. That is, resource portfolios or plans considered for need determination should meet minimum reliability and operational flexibility requirements.
 - With respect to operational flexibility requirements, ideally the results from the CAISO's 33% RPS integration study should be used to determine the amount and operating characteristics of flexible resources needed to operate the system under different resource portfolios or plans. Alternatively, parties could use the renewable integration model that PG&E recently developed to estimate the incremental integration requirements.
 - With respect to reliability requirements, pending completion of the Planning Reserve Margin ("PRM") proceeding, the parties could use the current 15 – 17% PRM for reliability as long as they use appropriate long-term NQC values for wind, solar, and DR. Alternatively, parties could use a loss of load calculation to demonstrate that the resource portfolios or plans meet a 1 day in 10 year reliability criteria.

- The cost evaluation of alternative resource portfolios or plans³ should be simplified to ensure that the analysis is completed timely and efficiently to provide the Commission with the necessary information to make informed trade-off decisions among cost, reliability and environmental metrics. For example, there is no need to evaluate resource plans for system need determination using hourly production simulations. Instead, the Commission should use an annual spreadsheet approach to capture the cost differences among alternative portfolios and cost sensitivities.
- The greenhouse gas (“GHG”) evaluation criteria⁴ should be modified as follows:
 - In general, PG&E supports use of a per-ton cost of GHG emission abatement metric to review cost-effectiveness of portfolio elements such as RES or CHP, as well as the portfolio as a whole. However, the ruling describes a metric uses an "average, per-ton cost of GHG emission abatement." This will mask the marginal abatement cost. For example, suppose that achieving 25% RPS is relatively inexpensive, but the increment of going from 25% to 30% is expensive, perhaps because new transmission is needed. By design, the average metric would miss the impact of the expensive increment, which would be combined with abatement costs of the less-expensive initial 25% RPS. To avoid such masking, PG&E also suggests reporting of the marginal, per-ton GHG abatement cost of each year's increment of new resources.
 - Reporting “total GHG emissions” associated with each portfolio would underestimate ratepayers' exposure to GHG allowance prices since wholesale electricity prices will likely increase under a cap-and-trade program, because fossil-fueled price-setting generators will include some GHG allowance cost in their prices. In addition to reporting emissions, it might make sense to report ratepayers' exposure (in millions of tons) to GHG allowance prices.
 - When reporting “total GHG emissions”, guidance on emission rates should be provided for” (1) purchases from CAISO pool-based markets and (2) purchases from fossil-fueled Qualifying Facilities (“QFs”). A typical gas-fired QF emits CO₂ in the process of simultaneously producing electricity generation and some useful thermal output, but there is no non-arbitrary way of "allocating" the tons of CO₂ between electricity generation and thermal output.
- With regard to GHG Policy assumption (p. 10), PG&E supports consideration of an allowance allocation policy as well as consideration of cost containment mechanisms such as a price collar and free allowances.
- The load growth assumption used to determine resource need should capture the uncertainty with load growth rather than assume all scenarios have the same load

³ See Initial Ruling, Attachment 2, at pp. 4-5.

⁴ *Id.*, at p. 5.

growth embedded in the 2009 Integrated Energy Policy Report (“IEPR”) adopted load forecast. Historic load growth range is more representative than a single data point.

- For Energy Efficiency (“EE”), the amount of EE should be reliable, not simply targets and goals. As a general criterion, the incremental EE amounts not already embedded in the load forecast should be dependable enough that do not increase the probability of customer shortages due to supply deficiency. PG&E is providing only limited comments regarding the planning assumptions for energy efficiency subject to review of the forthcoming ruling that will provide Staff’s proposed assumptions and provide a separate opportunity for parties to comment.⁵
- The “Base Case” is defined as a set of assumptions and parameters that represent the “expected or most likely values for each scenario” and common to all required scenarios.⁶ These terms are vague and undefined and are likely not commonly shared by all parties. For example, not all parties may agree that the “base case” renewable resource cost or the Market-Price Referent (“MPR”) gas prices described in Table 3. Requirements for base case assumptions, cost comparison, represent the most likely values, PG&E proposes not to label these assumptions as Base case or “expected or most likely values.” Instead, these assumptions can be called simply common values.
- The required sensitivity analysis described on page 11 should use high and low values that capture a 90% confidence range for natural gas, electricity and CO₂ prices, as well as for technology costs sensitivities. Parties should be able to offer specific numerical values for sensitivities in subsequent comments filed after the workshops on June 28.

IV. PG&E RESERVES THE RIGHT TO COMMENT ON SPECIFIC ONCE THROUGH COOLING REQUIREMENTS (SECTION 2.2.2).

PG&E commends the collaboration between the Commission, California Energy Commission (“CEC”), California Independent System Operator (“CAISO”), and the California State Water Resource Control Board (“SWB”) in the joint effort put forward to develop a once-through cooling (“OTC”) compliance policy and in providing ongoing checks-and-balances for the implementation of this policy. In its discussion of planning assumptions, the Commission references the Joint Energy Agency Proposal,⁷ which requires a phased implementation approach

⁵ Initial Ruling, at pp. 11-12.

⁶ *Id.*, at p. 2.

⁷ Initial Ruling, at pp. 7-8.

of OTC policies. PG&E may have additional comments on the details of how the Joint Energy Agency Proposal is integrated into Track I of the LTPP at a later time in this proceeding. For instance, the Joint Energy Agency Proposal may require targeted RFOs focused on “acquiring needed replacement capacity in appropriate locations with operational characteristics that would allow existing OTC plants/units to retrofit, repower or retire consistent with the Plan.”⁸ In the absence of specific details as to how this requirement may factor into the 2010 LTPP, PG&E reserves the right to comment at a later time on the relative merits of such an approach.

**V. PLANNING STANDARDS FOR BUNDLED PROCUREMENT PLANS
(SECTION 3 AND ATTACHMENTS 3 AND 4)**

Because the planning assumptions and standards proposed in Attachment 4 for the bundled plans are almost identical to those proposed in Attachment 2 for system plans, the comments provided above regarding Attachments 1 and 2 apply equally to Attachments 3 and 4. In addition, the portfolio evaluation criteria⁹ should not include TEVaR as a risk measure to quantify risk over a 10-year time horizon because such a long horizon dramatically increases the uncertainty bands around the measure, thereby diminishing the usefulness of the metric. A TEVaR measure does provide advantages, particularly in the short-term and the accuracy of

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⁸ Implementation of OTC Mitigation Through Energy Infrastructure Planning and Procurement Changes by the CEC, CPUC, and CAISO, May 19, 2009 (joint energy agency proposal); Appendix C to the SWRCB staff’s Draft Substitute Environmental Document for the Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling, July 15, 2009 at p. C-5

⁹ Initial Ruling, Attachment 4, at p. 3.

stochastic risk metrics beyond five years is questionable. Finally, the high and low sensitivities for natural gas and CO₂ prices should be the same as those used in the system resource plans to preserve consistency, rather than simply stating as “feasible extremes.”¹⁰

Respectfully submitted,

By: _____/s/_____
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Dated: June 11, 2010

¹⁰ *Id.*, at p. 7.

CERTIFICATE OF SERVICE BY ELECTRONIC MAIL

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department B30A, 77 Beale Street, San Francisco, CA 94105.

On the 11th day of June 2010, I caused to be served a true copy of:

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[XX] By Electronic Mail – serving the enclosed via e-mail transmission to each of the parties listed on the official service list for R.10-05-006.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 11th day of June 2010 at San Francisco, California.

/s/
STEPHANIE LOUIE